

COSTA MESA SANITARY DISTRICT

Financial Statements

Year ended June 30, 2002

(With Independent Auditors' Report Thereon)

COSTA MESA SANITARY DISTRICT

Financial Statements

Year ended June 30, 2002

(with comparative totals for the year ended June 30, 2001)

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Board of Directors  
Costa Mesa Sanitary District  
Costa Mesa, California

Independent Auditors' Report

We have audited the balance sheet of the Costa Mesa Sanitary District as of June 30, 2002 and the related statement of revenues, expenses and changes in retained earnings, and the related statement of cash flows, for the year then ended. These financial statements are the responsibility of the Costa Mesa Sanitary District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Costa Mesa Sanitary District as of June 30, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed further in note 5 in the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of GASB Statement No. 33 for the year ended June 30, 2002.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Conrad and Associates, L.L.P.*

September 20, 2002

COSTA MESA SANITARY DISTRICT  
Combined Balance Sheet  
June 30, 2002  
(with comparative totals as of June 30, 2001)

	Totals	
	2002	2001
<u>Assets</u>		
Current assets:		
Cash and investments (note 2)	\$ 10,634,349	10,080,554
Cash with fiscal agent (note 2)	248,939	-
Accounts receivable	2,962	7,899
Interest receivable	68,152	110,442
Taxes receivable	107,271	105,167
Due from other governments	12,910	58,763
Total current assets	11,074,583	10,362,825
Property, plant and equipment:		
Property rights	4,025	4,025
Subsurface sewer lines	19,914,147	19,782,467
Buildings and improvements	346,520	346,520
Equipment	2,651,735	458,725
Construction in progress	300,011	192,905
Total property, plant and equipment	23,216,438	20,784,642
Less: accumulated depreciation	(10,420,389)	(9,969,446)
Net property, plant and equipment	12,796,049	10,815,196
Total assets	\$ 23,870,632	21,178,021
<u>Liabilities and District Equity</u>		
Current liabilities:		
Accounts payable	\$ 542,278	570,705
Accrued liabilities	3,640	400
Deposits payable	11,619	-
Due to other governments	69,142	-
Due to the City of Costa Mesa	1,000	-
Capital lease payable (note 4)	179,376	-
Total current liabilities	807,055	571,105
Long-term liabilities:		
Capital lease payable (note 4)	1,934,153	-
Total long-term liabilities	1,934,153	-
Total liabilities	2,741,208	571,105
District equity:		
Contributed capital	4,706,829	4,706,829
Retained earnings:		
Investment in net property, plant and equipment	10,682,520	6,108,367
Reserved for capital outlay	1,987,187	3,650,922
Available for appropriation	3,752,888	6,140,798
Total retained earnings	16,422,595	15,900,087
Total district equity	21,129,424	20,606,916
Total liabilities and district's equity	\$ 23,870,632	21,178,021

See accompanying notes to financial statements.

# COSTA MESA SANITARY DISTRICT

## Combined Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended June 30, 2002

(with comparative totals for the year ended June 30, 2001)

	Totals	
	2002	2001
Operating revenues:		
Trash assessments	\$ 3,884,972	3,676,200
Sewer assessments	1,571,722	1,508,150
Permits and inspection fees	34,820	21,445
Connection fees	53,979	67,763
Other services	-	91,017
Investment recovery	12,967	140,949
Excessive effluent discharge	-	2,016
Total operating revenues	<u>5,558,460</u>	<u>5,507,540</u>
Operating expenses:		
Solid waste disposal	2,289,609	2,758,872
Liquid waste disposal	854,911	508,388
Dump charges	1,756,721	1,666,619
General and administration	672,241	547,557
Depreciation	450,943	448,748
Total operating expenses	<u>6,024,425</u>	<u>5,930,184</u>
Operating income (loss)	<u>(465,965)</u>	<u>(422,644)</u>
Non-operating revenues (expenses):		
Investment income	531,421	670,091
Interest expense	(54,120)	-
Taxes	150,214	151,426
Other revenues (expenses)	3,083	(155,135)
Total non-operating revenues (expenses)	<u>630,598</u>	<u>666,382</u>
Income before capital contributions	<u>164,633</u>	<u>243,738</u>
Contributions:		
Contributed capital assets	<u>131,680</u>	<u>-</u>
Total contributions	<u>131,680</u>	<u>-</u>
Net income	296,313	243,738
Retained earnings at beginning of year, as restated (note 3)	<u>16,126,282</u>	<u>15,656,349</u>
Retained earnings at end of year	<u><u>\$ 16,422,595</u></u>	<u><u>15,900,087</u></u>

See accompanying notes to financial statements.

# COSTA MESA SANITARY DISTRICT

## Combined Statement of Cash Flows

Year ended June 30, 2002

(with comparative totals for the year ended June 30, 2001)

	Totals	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from customers	\$ 5,607,092	5,460,810
Cash payments to suppliers for goods and services	<u>(5,283,670)</u>	<u>(5,084,928)</u>
Net cash provided by operating activities	<u>323,422</u>	<u>375,882</u>
Cash flows from non-capital financing activities:		
Taxes received	150,214	131,035
Annexation fees received	-	-
Miscellaneous cash payments	-	(155,235)
Miscellaneous cash revenue	<u>3,083</u>	<u>100</u>
Net cash provided by (used for) non-capital financing activities	<u>153,297</u>	<u>(24,100)</u>
Cash flows from capital and related financing activities:		
Cash paid to acquire fixed assets	(193,576)	(814,334)
Cash paid on capital lease	<u>(54,120)</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>(247,696)</u>	<u>(814,334)</u>
Cash flows from investing activities:		
Purchase of investments	(6,745,856)	(2,000,000)
Proceeds from sale of investments	4,472,114	3,978,872
Interest received	<u>573,711</u>	<u>693,706</u>
Net cash provided by (used for) investing activities	<u>(1,700,031)</u>	<u>2,672,578</u>
Net increase (decrease) in cash and cash equivalents	(1,471,008)	2,210,026
Cash and cash equivalents at beginning of year, as restated (note 1(c))	<u>5,608,440</u>	<u>5,870,528</u>
Cash and cash equivalents at end of year	<u>\$ 4,137,432</u>	<u>8,080,554</u>
Reconciliation of cash and cash equivalents to amounts reported on the balance sheet:		
Reported on the balance sheet:		
Cash and investments	\$10,634,349	10,080,554
Cash with fiscal agent	248,939	-
Less investments not meeting the definition of cash equivalents:		
Federal Agency Securities	<u>(6,745,856)</u>	<u>(2,000,000)</u>
Cash and cash equivalents at end of year	<u>\$ 4,137,432</u>	<u>8,080,554</u>

(continued)

# COSTA MESA SANITARY DISTRICT

## Combined Statement of Cash Flows

(Continued)

	<u>Totals</u>	
	<u>2002</u>	<u>2001</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$(465,965)	(422,644)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	450,943	448,748
Disposal of fixed assets	-	537,315
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,937	(4,456)
(Increase) decrease in taxes receivable	(2,104)	-
(Increase) decrease in due from other governments	45,853	(42,274)
(Increase) decrease in other assets	6,989	-
Increase (decrease) in accounts payable	197,768	156,572
Increase (decrease) in due to other governments	69,142	-
Increase (decrease) in due to City of Costa Mesa	1,000	(225,481)
Increase (decrease) in deposits payable	11,619	(72,298)
Increase (decrease) in accrued liabilities	<u>3,240</u>	<u>400</u>
Total adjustments	<u>789,387</u>	<u>798,526</u>
Net cash provided by operating activities	<u>\$323,422</u>	<u>375,882</u>

### Non-cash investing, capital, and financing activities

During the years ended June 30, 2002 and June 30, 2001, assets of \$131,680 and \$35,950, respectively, were contributed to the District by developers, respectively. In addition, during the year ending June 30, 2002, assets of \$2,113,529 were acquired through a capital lease.

See accompanying notes to financial statements.

# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

Year ended June 30, 2002

### (1) Summary of Significant Accounting Policies

The Costa Mesa Sanitary District ("District") was incorporated in February 1944 pursuant to Division VI, Part 1 of the Health and Safety Code of the State of California (sometimes referred to as the Sanitary District Act of 1923). At the present time, the boundaries of the District extend into the Cities of Costa Mesa and Newport Beach as well as unincorporated areas within the County of Orange.

On December 19, 1955, the District entered into an agreement with the City of Costa Mesa, pursuant to the authority contained in the Joint Exercise of Powers Act (Sections 6500-6513 of the Government Code). Currently, the City has been contracted by the District to provide maintenance services related to the sewer system.

The following is a summary of the District's significant accounting policies:

#### (a) Basis of Accounting

The District uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when the liability is incurred for receipt of the related goods and services.

#### (b) Investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

#### (c) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less. Investments in federal agency securities are not considered to be cash equivalents as defined above and, therefore, are excluded from the statements of cash flows.

Cash and cash equivalents at the beginning of the year have been restated to more accurately reflect cash and cash equivalents by definition. In the prior year, Medium term corporate notes in the amount of \$2,472,114 were included in cash equivalents and by definition it should have been excluded. As a result, the cash and cash equivalents at the beginning of the year has been restated to \$5,608,440.



# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (d) Fixed Assets

Fixed assets purchased by the District are capitalized at historical cost. Data reflected in the District fixed asset records include estimates of original cost as determined by knowledgeable District personnel. Contributed fixed assets, consisting primarily of donated subsurface lines dedicated to the District by sub-dividers, are recorded as increases in the contributed capital of the District. Such contributed fixed assets are recorded at their fair market value at the time of donation. Depreciation is charged to operations using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	20 years
Improvements	20 years
Equipment	20 years
Subsurface sewer lines	60 years

### (2) Cash and Investments

Cash and investments held by the Sanitary District at June 30, 2002 consisted of the following:

Deposits	\$ (166,743)
Investments	<u>10,801,092</u>
Total cash and investments	<u>\$10,634,349</u>

Cash and investments with fiscal agent at June 30, 2002 consisted of the following:

Investments	<u>\$248,939</u>
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The Costa Mesa Sanitary District is generally authorized under the state statute and local resolutions to invest in U.S. Treasury bills, U.S. Treasury notes, Federal agency securities, banker's acceptances, certificates of deposit, negotiable certificates of deposit, commercial paper, medium term notes, repurchase agreements, Local Agency Investment Fund of the State of California, Orange County Treasurer's Pool, asset-backed and mortgage-backed securities, money market mutual funds, and passbook savings account demand deposits.

# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

(Continued)

### (2) Cash and Investments, (Continued)

The District has also established guidelines for security purchases with investment limitations as follows: Bankers acceptances may not exceed 40% of the District's surplus money nor exceed 270 days maturity. Negotiable certificates of deposits may not exceed 30% of the District's surplus money. Commercial paper may not exceed 270 days maturity nor exceed 30% of the District's surplus funds. Medium term corporate notes may not exceed 30% of the District's surplus funds. The District may not invest more than 10% of its surplus funds in reverse repurchase agreements, and must always match its maturities to the reinvestment. The District may not invest more than 35% of its surplus money with the Orange County Treasurer's Pool. Asset-backed and mortgage-backed securities may not exceed 20% of the District's surplus money. The District may not invest more than 25% of its surplus in Federal Government sponsored Agency issues.

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the District or its agent in the District's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized agent of depository and subject to certain regulatory requirements under State law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name. Category 3 also includes any uncollateralized deposits.

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand deposits	<u>\$30,248</u>	<u>-</u>	<u>-</u>	<u>30,248</u>	<u>(166,743)</u>

# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

(Continued)

### (2) Cash and Investments, (Continued)

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year end. Category 1 includes investments that are insured, registered or are held by the District or its agent (other than the institution through which the District purchased the securities) in the District's name. Investments held "in the District's name" include securities held in a separate custodial or fiduciary account and identified as owned by the District in the custodian's internal accounting records. Category 2 includes uninsured and unregistered securities which are held in the District's name by the counterparty's trust department or agent. Category 3 includes uninsured and unregistered securities which are held by the counterparty, or the counterparty's trust department or agent, but not in the District's name. The counterparty is the party that acts as the broker-dealer agent of the District (the party that purchased the securities on behalf of the District). Category 3 includes all securities held by the broker-dealer of the District, regardless of whether or not the securities are being held in the District's name:

	<u>Category</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
Investments held by the District:				
Medium term corporate notes	\$ 703,951	-	-	703,951
Federal Agency Securities	<u>6,041,905</u>	<u>-</u>	<u>-</u>	<u>6,041,905</u>
	<u>\$6,745,856</u>	<u>-</u>	<u>-</u>	<u>6,745,856</u>
Investments held by District not subject to categorization:				
Investment in State Investment Pool - LAIF				4,055,236
Cash with fiscal agent:				
Money market				<u>248,939</u>
Total investments				<u>\$11,050,031</u>

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

(Continued)

### (3) Restatement of Beginning Retained Earnings

The accompanying financial statements reflect adjustments which resulted in a restatement of beginning retained earnings. The following schedule summarizes the effects of the prior period adjustment on the beginning retained earnings as of June 30, 2001:

Retained earnings at beginning of year, as previously reported	\$15,900,087
Adjustment of retained earnings: Adjustment of accounts payable	<u>226,195</u>
Retained earnings at beginning of year, as restated	<u>\$16,126,282</u>

### (4) Capital Lease Payable

On July 12, 2001, the Costa Mesa Sanitary District entered into a 10 year lease agreement with the Municipal Finance Corporation to provide financing in the amount of \$2,200,000 for the acquisition of refuse containers. The lease provides a purchase option. The obligation is due in semi-annual principal and interest payments of \$140,591. Interest is computed at a stated rate of 4.92%.

Amount of future minimum lease payments required are as follows:

<u>June 30<sup>th</sup></u>	<u>Amount</u>
2003	\$140,591
2004	140,591
2005	140,591
2006	140,591
2007	140,591
Payment after	<u>1,968,244</u>
Total amount of future lease payments	2,671,199
Less amounts representing stated interest	<u>(557,670)</u>
Present value of future lease payments	<u>\$2,113,529</u>

# COSTA MESA SANITARY DISTRICT

## Notes to Financial Statements

(Continued)

### (5) Changes to Accounting Principal

GASB Statement No. 33 changed the manner in which capital contributions are recorded in proprietary funds. Previously capital contributions had been credited directly to an equity account called *contributed capital*. Capital contributions include donated capital assets and resources legally restricted for the acquisition, improvement or construction of capital assets. As a result of the implementation of GASB Statement No. 33, capital contributions are now required to be reflected in the statement of revenues, expenses and changes in retained earnings.

## SUPPLEMENTAL DATA

## COSTA MESA SANITARY DISTRICT

## Combining Balance Sheet

June 30, 2002

	Sewer Construction	Facilities Revolving	Solid Waste	Liquid Waste	Totals	
					2002	2001
<u>Assets</u>						
Current assets:						
Cash and investments	\$ 199,433	2,060,630	2,060,066	6,314,220	10,634,349	10,080,554
Cash with fiscal agent	-	-	248,939	-	248,939	-
Accounts receivable	-	-	2,962	-	2,962	7,899
Interest receivable	1,075	11,102	11,099	44,876	68,152	110,442
Taxes receivable	-	-	89,723	17,548	107,271	105,167
Due from other government:	-	4,988	-	7,922	12,910	58,763
Total current assets	200,508	2,076,720	2,412,789	6,384,566	11,074,583	10,362,825
Property, plant and equipment:						
Property rights	-	-	-	4,025	4,025	4,025
Subsurface sewer lines	-	316,421	-	19,597,726	19,914,147	19,782,467
Buildings and improvements	-	-	-	346,520	346,520	346,520
Equipment	-	-	2,193,010	458,725	2,651,735	458,725
Construction in progress	-	-	-	300,011	300,011	192,905
Accumulated depreciation	-	(21,095)	-	(10,399,294)	(10,420,389)	(9,969,446)
Net property, plant and equipment	-	295,326	2,193,010	10,307,713	12,796,049	10,815,196
Total assets	\$ 200,508	2,372,046	4,605,799	16,692,279	23,870,632	21,178,021
<u>Liabilities and District Equity</u>						
Current liabilities:						
Accounts payable	\$ -	-	252,646	289,632	542,278	570,705
Accrued liabilities	-	-	2,475	1,165	3,640	400
Deposits payable	-	-	-	11,619	11,619	-
Due to other government:	-	-	-	69,142	69,142	-
Due to the City of Costa Mesa	-	-	500	500	1,000	-
Capital lease payable	-	-	179,376	-	179,376	-
Total current liabilities	-	-	434,997	372,058	807,055	571,105
Long-term liabilities:						
Capital lease payable	-	-	1,934,153	-	1,934,153	-
Total long-term liabilities	-	-	1,934,153	-	1,934,153	-
Total liabilities	-	-	2,369,150	372,058	2,741,208	571,105
District equity:						
Contributed capital assets	-	-	-	4,706,829	4,706,829	4,706,829
Retained earnings:						
Investment in net property, plant and equipment	-	295,326	79,481	10,307,713	10,682,520	6,108,367
Reserved for capital outlay	200,508	481,000	-	1,305,679	1,987,187	3,650,922
Available for appropriation	-	1,595,720	2,157,168	-	3,752,888	6,140,798
Total retained earnings	200,508	2,372,046	2,236,649	11,613,392	16,422,595	15,900,087
Total district equity	200,508	2,372,046	2,236,649	16,320,221	21,129,424	20,606,916
Total liabilities and district equity	\$ 200,508	2,372,046	4,605,799	16,692,279	23,870,632	21,178,021

## COSTA MESA SANITARY DISTRICT

## Combining Statement of Revenues, Expenses and Changes in Retained Earning

Year ended June 30, 2002

	Sewer Construction	Facilities Revolving	Solid Waste	Liquid Waste	Totals	
					2002	2001
Operating revenues:						
Trash assessments	\$ -	-	3,884,972	-	3,884,972	3,676,200
Sewer assessments	-	-	-	1,571,722	1,571,722	1,508,150
Permits and inspection fees	-	-	-	34,820	34,820	21,445
Connection fees	-	53,673	-	306	53,979	67,763
Other services	-	-	-	-	-	91,017
Investment recovery	-	-	8,742	4,225	12,967	140,949
Excessive effluent discharge	-	-	-	-	-	2,016
Total operating revenues	-	53,673	3,893,714	1,611,073	5,558,460	5,507,540
Operating expenses:						
Solid waste disposal	-	-	2,289,609	-	2,289,609	2,758,872
Liquid waste disposal	-	-	-	854,911	854,911	508,388
Dump charges	-	-	1,756,721	-	1,756,721	1,666,619
General and administration	-	-	203,001	469,240	672,241	547,557
Depreciation	-	5,274	-	445,669	450,943	448,748
Total operating expenses	-	5,274	4,249,331	1,769,820	6,024,425	5,930,184
Operating income (loss)	-	48,399	(355,617)	(158,747)	(465,965)	(422,644)
Non-operating revenues (expenses)						
Investment income	9,333	95,296	110,265	316,527	531,421	670,091
Interest expense	-	-	(54,120)	-	(54,120)	-
Taxes	-	-	150,173	41	150,214	151,426
Other revenues (expenses)	-	-	3,551	(468)	3,083	(155,135)
Total non-operating revenues (expenses)	9,333	95,296	209,869	316,100	630,598	666,382
Income before capital contributions	9,333	143,695	(145,748)	157,353	164,633	243,738
Contributions:						
Contributed capital assets	-	-	-	131,680	131,680	-
Total contributions	-	-	-	131,680	131,680	-
Net income	9,333	143,695	(145,748)	289,033	296,313	243,738
Retained earnings at beginning of year as restated	191,175	2,228,351	2,382,397	11,324,359	16,126,282	15,656,349
Retained earnings at end of year	\$ 200,508	2,372,046	2,236,649	11,613,392	16,422,595	15,900,087